COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES OF COLUMBIA GAS OF KENTUCKY, INC.	))	CASE NO. 9003

O R D E R

On November 7, 1984, Columbia Gas of Kentucky, Inc., ("Columbia") filed a petition requesting rehearing or reconsideration of certain issues addressed in the Commission's rate Order issued in Case No. 9003 on October 18, 1984. By its Order of November 21, 1984, the Commission granted a rehearing on the issues of income tax expense and the appropriate Transportation Service Rate.

ISSUES ON REHEARING

Income Taxes

In its Order of October 18, 1984, the Commission increased Columbia's test period net negative income tax expense by a negative $358,695 for the income tax effects of various revenue and expense adjustments. Columbia objected to this methodology citing the procedure utilized by the Commission in Case No. 8281, An Adjustment of Rates of Columbia Gas of Kentucky, where the Commission's methodology began with a zero income tax and adjusted for permanent tax timing differences and the current amortization of accumulated investment tax credits. The Commission's current opinion is that the method used in Case No. 8281 is more appropriate. Therefore, income taxes for the adjusted test period, prior to the increase, will be stated at zero, as negative income tax expense is misleading.

In its filing and evidence of record prior to rehearing, Columbia proposed its pro forma amount of income tax expense without consideration of permanent tax differences associated with revenue and expense items and the amortization of investment tax credits which generally result in a certain level of "negative tax." The Commission generally utilizes this level of "negative tax" in the determination of income tax expense based on the level of income found to be fair and reasonable. Since these permanent tax differences were not disclosed by Columbia as the case was originally submitted, the Commission had no choice but to attribute the full amount of the adjusted "negative tax" to the reduction of expected rate-making income taxes.

Through subsequent discovery and testimony on rehearing, Columbia disclosed the permanent tax differences resulting from revenue and expense items and the amortization of investment tax credits. Therefore, the Commission has recalculated Columbia's income tax expense to include the amortization of investment tax credit in the amount of $89,200 and various other permanent timing differences in the total amount of $17,770. The Commission has determined the pro forma amount of income tax expense to be $3,252,969 based upon the above permanent differences and a net operating income of $5,904,072. The Commission finds the redetermined amount of pro forma income tax expense of $3,252,969 to be greater than the $2,724,191 pro forma amount allowed in its October 18, 1984, Order in this case and has determined that an increase in Columbia's revenues in the amount of the difference, $528,778, plus an allowance for bad debts of $1,215 is appropriate in this case.

Although the Commission is herein granting Columbia the additional level of income tax expense appropriate to earn the income the Commission found reasonable in its Order of October 18, 1984, the Commission advises Columbia that, in subsequent cases, Columbia should be more forthcoming in meeting its burden of proof on such fundamental issues as income tax expense.

Transportation Rate

Columbia supported the adoption of the transportation rate of 80 cents per Mcf, as established by the Commission in its Order of October 18, 1984, in this case but Columbia requested the flexibility to charge lower rates in certain limited circumstances. Specifically, Columbia stated that lower transportation rates are appropriate where they are needed to meet competition from alternate fuels or where a load would otherwise not be served, i.e., where the customer's alternative would be to shut down, relocate or forego an expansion of its facilities. Columbia does not believe that the Commission's approval of each contract should be required so that Columbia can have the flexibility needed to adjust to rapidly changing conditions in the market for alternate fuels. The Commission is of the opinion that Columbia should be granted this flexibility. The Commission does, however, require that Columbia notify the Commission when a rate other than the 80 cents is charged. Moreover, the Commission further advises Columbia that it must document and fully support the necessity to charge a rate lower than the 80 cents in its next general rate case before this Commission or the 80 cents rate will be imputed and Columbia's stockholders, not its ratepayers, will be required to bear the amount of the difference.

The decision to provide service at a lower rate because of a customer's financial problems is more difficult than the decision to lower rates to meet competition. The Commission recognizes that circumstances may occur in which a utility, and its ratepayers, may benefit by lowering rates to help keep a commercial or industrial customer operating in its service area. However, the public policy implications of such lower rates require prior review and consideration by the Commission on a case-by-case basis.

FINDINGS AND ORDERS

The Commission, after examining the evidence of record and being advised, is of the opinion and finds that:

1. Columbia should be granted additional revenues in the total amount of $529,993 above that granted in the Order of October 18, 1984.

2. All aspects of the Commission's Order of October 18, 1984, not specifically addressed herein should be affirmed.

3. The rates in Appendix A are the fair, just and reasonable rates to be charged by Columbia.

4. Columbia should have the flexibility to lower transportation rates without the Commission's prior aproval to meet competition from alternate fuel. In its next rate case,

Columbia should support the necessity of any transportation service it has provided at rates lower than 80 cents per Mcf.

5. The flexibility requested by Columbia to lower transportation rates where the customer's alternative would be to shut down, relocate or forego an expansion of its facilities should be denied.

IT IS THEREFORE ORDERED that the rates and charges proposed by Columbia be and they hereby are denied.

IT IS FURTHER ORDERED that the rates and charges in Appendix A be and they hereby are the fair, just and reasonable rates and charges to be charged by Columbia for the services rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Columbia shall file its transportation tariff with the provision that Columbia may, without the Commission's prior approval, transport gas at a lower rate than the stated rate of 80 cents per Mcf to meet competition from alternate fuels.

IT IS FURTHER ORDERED that Columbia's request to have the flexibility to enter into a contract without the Commission's approval to transport gas at a lower rate than the transportation rate of 80 cents per Mcf where the customer's alternative would be to shut down, relocate or forego an expansion of facilities is hereby denied.

IT IS FURTHER ORDERED that all other provisions of the Commission's Order in this matter entered October 18, 1984, not specifically addressed herein shall remain in full force and effect.

IT IS FURTHER ORDERED that Columbia shall file its revised tariff sheets setting out the rates approved herein within 20 days of the date of this Order.

Done at Frankfort, Kentucky, this 9th day of August, 1985.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

did not participate
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 9003 DATED AUGUST 9, 1985

The following rates and charges are prescribed for the customers served by Columbia Gas of Kentucky, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the date of this Order.

The following rates and charges have incorporated all changes through PGA Case No. 9003E.

<u>GENERAL SERVICE RATE SCHEDULE</u> - GS Residential

<u>Customer Charge:</u>
$3.25 per delivery point per month

<u>Commodity Charge:</u>

First	50 Mcf per month @ $5.514 per Mcf
All Over	50 Mcf per month @ $5.330 per Mcf

<u>GENERAL SERVICE RATE SCHEDULE</u> - GS-Commercial and Industrial

<u>Customer Charge:</u>
$5.50 per delivery point per month

<u>Commodity Charge:</u>

First	200 Mcf per month @ $5.763 per Mcf
All Over	200 Mcf per month @ $5.616 per Mcf

RATE SCHEDULE FC-1
<u>FIRM AND CURTAILABLE GAS SERVICE - OPTIONAL</u>

<u>Firm Volume (Daily Firm Volume Times Number of Days in Month)</u>

First 1,000 Mcf per month @ $5.677 per Mcf
Over 1,000 Mcf per month @ $5.627 per Mcf

<u>Curtailable Volume</u>
$5.478 per Mcf of Curtailable Volume of gas delivered hereunder each billing month.

AVAILABILITY OF EXCESS GAS

In the event Buyer shall desire to purchase on any day gas in excess of Buyer's specified Maximum Daily Volume, Buyer shall inform the Seller and if the Seller is able to provide such excess gas required by Buyer from its operations, Seller shall make such excess gas available at the rate of $5.478 per Mcf.

If such excess gas cannot be made available to Buyer from Seller's own operations, Seller may comply with such request to the extent that excess gas is temporarily available from Seller's gas supplier, in order to provide gas which otherwise would not be available. Such excess volume taken shall be paid for at the rate of $4.28 per Mcf.

On any day when Buyer has been notified to curtail deliveries, Buyer may request excess gas and to the extent such excess gas can be obtained from Seller's supplier, Buyer shall pay Seller at the rate of $4.28 per Mcf for all such volumes taken which would otherwise not be available.

RATE SCHEDULE FI-1
FIRM AND INTERRUPTIBLE GAS SERVICE - OPTIONAL

Daily Firm Volume
First 5,000 Mcf per month @ $5.607 per Mcf
Over 5,000 Mcf per month @ $5.576 per Mcf

Daily Interruptible Volume
$5.396 per Mcf of Daily Interruptible Volume of gas delivered hereunder each billing month.

AVAILABILITY OF EXCESS GAS

In the event Buyer shall desire to purchase on any day gas in excess of Buyer's specified Maximum Daily Volume, Buyer shall inform the Seller and if the Seller is able to provide such excess gas required by Buyer from its operations, Seller shall make such excess gas available at the rate of $5.396 per Mcf.

If such excess gas cannot be made available to Buyer from Seller's own operations, Seller may comply with such request to the extent that excess gas is temporarily available from Seller's gas supplier, in order to provide gas which otherwise would not be available. Such excess volume taken shall be paid for at the rate of $4.28 per Mcf.

On any day when Buyer has been notified to curtail deliveries, Buyer may request excess gas and to the extent such excess gas can be obtained from Seller's supplier, Buyer shall pay Seller at the rate of $4.28 per Mcf for all such volumes taken which would otherwise not be available.

RATE SCHEDULE IS-1
INTERRUPTIBLE GAS SERVICE - OPTIONAL

Billing Months April Through November

$5.766 per Mcf for all volumes delivered each month up to and including the Average Monthly Winter Volume. The Average Monthly Winter Volume shall be one-fourth of the total delivery during the preceding billing months of December through March.

$5.342 per Mcf for all volumes delivered each month in excess of the Average Monthly Winter Volume.

Billing Months December Through March

$5.766 per Mcf delivered.

RATE SCHEDULE IUS-1
INTRASTATE UTILITY SERVICE

For all gas delivered each month $4.576 per Mcf.

MINIMUM MONTHLY CHARGE

The maximum Daily Volume specified in the Sales Agreement multiplied by $4.576 per Mcf.

RATE SCHEDULE DS-DELIVERY SCHEUDLE

Rate
Eighty cents ($0.80) per Mcf for all gas delivered each billing month.

The base rates for the future application of the purchased gas adjustment clause are:

Columbia Gas Transmission Corporation

Zone 1 and Zone 3 rate per DTH	Demand	Commodity
Schedule CDS	$ 5.874	$3.60
Schedule WS		
Demand	$2.109	
Winter Contract Quantity	4.82¢	

Columbia LNG Corporation

LNG - Rate per DTH		$ 3.55

Inland Gas Company

All Purchases - Rate per Mcf		$ 3.4221